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London, UK

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To,

Alternative Reference Rates Committee (ARRC)

Introduction

Associates in Capital Markets Ltd. (ACAPM) is a London based specialist advisory firm, with focus on Financial Benchmark Management, Capital Markets Regulations and Enterprise Risk Management. ACAPM collaborates with financial institutions in the areas of Financial Benchmarks (LIBOR, EURIBOR, SONIA etc.), BCBS 265, Volcker, BCBS 239 and MiFID II to take advantage of new regulations to improve governance and achieve efficient capital management.

ACAPM welcomes the opportunity to provide feedback on the Consultative Paper on the Interim Report of Alternative Reference Rates, dated May 20, 2016.

ACAPM recognizes the goals and objectives of Alternative Reference Rates Committee (ARRC) to develop an alternative reference interest rates that are firmly based on transactions from underlying market, while keeping in mind the directions of FSB and in accordance with the IOSCO principles of Financial Benchmarks. In principle, we support all the efforts of ARRC. We are of the view that transaction based alternative reference rates being developed provides the market with better choice and in turn leads to robust financial markets in the United States. We also appreciate that ARRC has undertaken to make the entire process transparent and market-driven.

Below is the detailed feedback from ACAPM.

Regards,

Cornelius Nandyal

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*Alternative Reference Rates Committee*

**INTERIM REPORT AND CONSULTATION**

**Response to Consultation**

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<b>Position</b>	Partner
<b>Organisation (if any)</b>	Associates in Capital Markets
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The efforts of Alternative Reference Rates Committee (ARRC) and Federal Reserve in finding an alternative reference interest rate is a step in right direction. The key to a robust financial benchmark is its ability to represent the underlying market in a consistent and accurate manner. This could be achieved by evidencing the reference rates from underlying market transactions transparently as endorsed by regulators including ARRC. The often-used and long-standing benchmarks such as LIBOR are now following such transaction based waterfall methodology to produce a reliable benchmark. While this is a step in right direction for the existing benchmarks, regulators across the globe are now aware of the need for identification/development of an alternative near risk-free reference rates. This is apparent from the activities such as Bank of England's Sterling Risk-Free Reference rates, Japan's Study Group on Risk Free Reference Rates, Switzerland's National Working Group to Federal Reserve's Alternative Reference Rate Committee (ARRC).

The rates being considered by the ARRC as replacement of USD LIBOR seem robust and poised to support the envisaged transition. Of the two, we prefer Overnight Bank Funding Rate (OBFR). As evidenced by ARRC, the OBFR is supported by a considerable volume of transactions from a wide set of panel banks. This provides the rate with ample liquidity even in the lean period. In contrast, the feasibility of the other alternative of Overnight Treasury General Collateral Repo Rate (with tri-party and bilateral transactions) still remains doubtful. The development of such a rate could be time consuming and may lead to delays in implementation and market adoption.

Note: The opinions expressed in this paper are the views of the Associates in Capital Markets (ACAPM) and do not necessarily reflect the views or policies of the clients they represent

While considering OBFR, however, we believe that the diversity of the counterparties may need to be carefully assessed so as to not base the rate on a single or group of counterparties to avoid any undue influence. Since OBFR consists of transactions in overnight fed fund markets (roughly 30% of overall transactions) which in turn are predominantly influenced by single government entities, it may be of prudence if this point is carefully analysed before finalisation. Also the counterparty credit risk of the 150+ data providing banks also needs consideration in determining the alternative reference rate.

The high level transition strategy proposed by ARRC is placed in the right spirit. The idea of a paced transition enables the adoption of rate to be market-driven and would likely lead to minimal disruptions in the markets. However, we believe that viability of a complete replacement of the longstanding benchmark rates may not be plausible since the rates envisaged to be replaced are dominant and critical to the financial markets. This is especially important in the light of the efforts undertaken by the stakeholders (regulators, administrators and panel banks) of these existing benchmarks in restoring the credibility of the benchmark. The transaction-based waterfall methodology being implemented by ICE LIBOR is a testimony to this.

Moreover, attempting to move the market towards using the new rate by cutting off the existing rates may cause severe market disruptions in reality. A better option would be offer both the rates to the market without restrictions. Markets would most likely consolidate towards a single rate which is most suitable. We understand, however, that the existence of both rates may present new basis risks as recognised by the ARRC. However, the efforts of ARRC and the market stakeholders in creating robust market structures would protect from such risks.

The reform activities undertaken by ARRC and the Federal Reserve are crucial for long-term financial robustness. It may be a challenging but necessary activity. We firmly believe that all the stakeholders - Regulators, Banks and Financial Institutions (in the capacity of contributors and consumers), Benchmark Administrators and the consumers need to come together to strategize and implement these changes in a manner that is least disruptive of the market ensuring a smooth transition.

We, at ACAPM, would be glad to participate in the roundtable with the ARRC to discuss the issues and provide our ideas for development and adoption of robust, reliable and representative benchmarks.

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